The new wording is:
We currently have an upper limit in place, which means we would not make any further sales of our NFU Mutual Vintage and NFU Mutual Classic Bonds if the combined value of in force business for both bonds exceeded a certain amount. This is due to the capital intensity of the guarantees the products offer. The limit is regularly reviewed.

There are a number of reasons other than solvency constraints why we may choose to permanently stop selling a particular product. These reasons include:

- Changes in regulation, legislation or taxation rules
- Low volumes of sales
- Product strategy changes

In addition there are reasons why we may choose to temporarily stop or start selling particular products. For example the appropriate charge for guarantees in the NFU Mutual Vintage and NFU Mutual Classic Bonds is sensitive to market conditions. The required level of charge may make the product commercially unviable and as a result we may choose to temporarily stop or start selling this product.

We have changed the wording in practice 7.2 of the PPFM to make it clearer what circumstances could cause us to stop or start selling a product.

Glossary

As the Group Investment Committee has been replaced by the *Market Risk Committee* we have removed the Group Investment Committee definition and replaced it with the definition of the *Market Risk Committee*.

The Group Risk Committee has been replaced by the *Executive Risk Committee* and the definition of the *Executive Risk Committee* has been included in the Glossary.

The new wording is:
The Committee that recommends to the Board the Society's strategy and policy/philosophy for risk management and monitors its adoption throughout the Society.

We have also amended the definition of the *With-Profits Committee* to reflect the change in definition to subordinate Committee to the Society's Board.

www.nfumutual.co.uk
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PPFM/DM/0911

Summary of changes to the Principles and Practices of Financial Management (PPFM) - 1st September 2011

NFU Mutual

Summary of changes to PPFM

The Principles and Practices of Financial Management (PPFM) is a document that aims to explain how a company manages its *with-profits business*. We introduced a new version of our PPFM on 1st September 2011 and this document summarises the changes. The changes were proposed by the *With-Profits Actuary*, approved by the *With-Profits Committee* and then ratified by the Society's Board.

Words highlighted in italics in this document are listed in the glossary of the PPFM. A copy of the updated PPFM is located on our website at www.nfumutual.co.uk.

The changes made to the PPFM are minor and none of the principles have been changed.

Introduction

We have clarified the definition of the *With-Profits Committee* and have changed the wording in section 1.4.

Previously the wording stated:
The Board has a sub group called the *With-Profits Committee*, which monitors the ongoing compliance with the PPFM.

The new wording is:
The Board has a subordinate committee called the *With-Profits Committee*, which monitors the ongoing compliance with the PPFM.

The Amount Payable Under a With-Profits Policy

Practice 2.3.2 of the PPFM describes the methods we use to set *terminal bonus* rates. Previously we stated that whole of life policies would be awarded the same *terminal bonus* rate as endowment policies.

In November 2010 we stopped selling new endowments, but we still sell whole of life policies. Where there is no appropriate endowment *terminal bonus* rate to use for whole of life policies, then a separate whole of life *terminal bonus* rate will be calculated.

The new wording is:
In particular, whole of life policies will be awarded the same *terminal bonus* rate as endowment assurances where there exists an appropriate set of endowment assurance *terminal bonus* rates. Where no appropriate set of endowment assurance *terminal bonus* rates exist separate *terminal bonus* rates will be calculated for whole of life policies.

The wording in Practices 2.3.2 has been changed to clarify our current practice on awarding *terminal bonus* on with-profits whole of life policies where no appropriate endowment terminal bonus exists.

Investment Strategy

Previously in practices 3.2.1 and 3.2.2, we referred to the Group Investment Committee. The Group Investment Committee has now been replaced by a new committee called the *Market Risk Committee*. Therefore we have replaced references to the Group Investment Committee with the *Market Risk Committee*.

In addition we have updated the duties of the *Market Risk Committee* to clarify that the *Market Risk Committee* sets the investment policy and asset profile that is appropriate to the risk appetite.

In addition we previously stated that in carrying out these duties, the Group Investment Committee will take advice, where appropriate, from the *With-Profits Committee* and the *Actuary* with regard to

- Asset/liability matching
- Constraints reflecting levels of guarantees on certain classes of policies
- The ability of the long-term business fund to meet its capital resource requirement and any other capital requirement of the regulator or the Board
- Appropriate asset allocations to asset shares for different classes and generations of policyholders
- Policyholder reasonable expectations and compliance with both the PPFM and the regulatory regime for with-profits policyholders.

This has been changed to refer to the *Market Risk Committee* and the first three bullet points have been removed.

The new wording is:
The Board delegates responsibility for the investment strategy of the long-term business fund within an agreed risk appetite to the *Market Risk Committee*. At least quarterly, the *Market Risk Committee* will:

- Review the movements in the relevant securities markets
- Review the liquidity and cashflow position of the long-term business fund
- Review recent investment activity
- Review the long-term business fund performance against suitable benchmarks and portfolio risk profiles
- Review domestic and global economic background
- Set an investment policy and asset profile appropriate to the risk appetite.

In carrying out these duties, the *Market Risk Committee* will take advice, where appropriate, from the *With-Profits Committee* and the *Actuary* with regard to:

- Appropriate asset allocation limits for asset shares for different classes and generations of policyholders
- Policyholder reasonable expectations and compliance with both the PPFM and the regulatory regime for with-profits policyholders.

We have changed the wording in practices 3.2.1 and 3.2.2 to refer to the *Market Risk Committee* and we have also revised the wording to update the duties of the *Market Risk Committee*.

Business Risk

Previously in practice 4.2.1 we referred to the Group Risk Committee.

The Group Risk Committee has now been replaced by the *Executive Risk Committee* and so we have changed the wording in practice 4.2.1 to refer to the *Executive Risk Committee*.

Volumes of New Business and Arrangements on Stopping Taking New Business

Practice 7.2 of the PPFM describes our practices on accepting new business. We have updated practice 7.2 to include some reasons why we might permanently or temporarily stop or start selling certain products.

Previously we stated:
We currently have an upper limit in place, which means we would stop selling our NFU Mutual Vintage and NFU Mutual Classic Bonds if the combined value of in force business for both bonds exceeded a certain amount. This is due to the capital intensity of the guarantees the products offer. The limit is regularly reviewed.